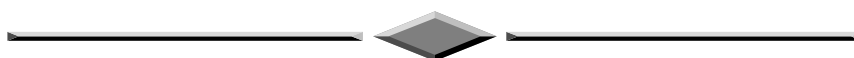


Overview of the Effects of Cohort Default Rates



Are there any consequences associated with draft cohort default rates?

It is important to note that there are no consequences associated with **draft** cohort default rates. However, there are consequences associated with **official** cohort default rates. Since the draft cohort default rate data form the basis of the official cohort default rates, and since a school may be unable to appeal its official rate if it fails to challenge its draft data, it is critical that a school review its draft cohort default rate data to ensure the data's accuracy.

What happens after the draft cohort default rate data are provided to schools?

After schools receive their draft cohort default rate data and schools are provided an opportunity to identify and correct any inaccuracies, the U.S. Department of Education (Department) releases the **official cohort default rates**. Official cohort default rates are released to schools and the public approximately six months after the release of the draft cohort default rates BUT must be released no later than September 30th of each year.¹

Will a school's draft cohort default rate and official cohort default rate be the same?

Not necessarily. The National Student Loan Data System (NSLDS), which contains the data used to calculate cohort default rates, is regularly updated. Therefore, a school's **draft** data might differ from its **official** data, even if a school does not challenge its draft cohort default rate data.

¹ HEA Section 435(m)(4)(D)

Are there any consequences associated with official cohort default rates?

Yes. The Higher Education Act of 1965, as amended (HEA), and the U.S. Department of Education's (Department) regulations describe the sanctions that apply when a school's official cohort default rate(s) is at or above certain percentages. For cohort default rate purposes, a sanction is a specific restriction on a school's participation in the Title IV Student Financial Assistance Programs.

Please refer to the next question for additional information on the various sanctions associated with **official** cohort default rates.

The HEA and the Department's regulations also describe the benefits that apply when a school's official cohort default rate(s) is below certain percentages. For cohort default rate purposes, a benefit is provided in the form of an exemption from certain loan disbursement requirements.

Please refer to pages 40 and 41 for additional information on the various benefits associated with **official** cohort default rates.

What sanctions are associated with official cohort default rates?

The sanctions associated with official cohort default rates are:

- ◆ **initial loss²** of eligibility to participate in the:
 - ❖ Federal Family Education Loan (FFEL) Program;
 - ❖ William D. Ford Federal Direct Loan (Direct Loan) Program;AND/OR
 - ❖ Federal Pell Grant Program.

Initial loss of eligibility to participate in these programs occurs when a school's three most recent **official cohort default rates** (in this case FY 1996, FY 1997, and FY 1998) are equal to or greater than 25.0 percent.

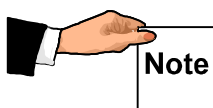
OR

² 34 CFR Section 668.17(a)(3), 668.17(b), HEA Section 435(a)(2), and HEA Section 401(j)

◆ **extended loss³** of eligibility to participate in the:

- ❖ FFEL Program;
- ❖ Direct Loan Program;
- AND/OR
- ❖ Federal Pell Grant Program.

Extended loss of eligibility to participate in these programs occurs when a school lost FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program eligibility due to prior year official cohort default rates (in this case FY 1995, FY 1996, and FY 1997) AND the school's current year official cohort default rate (in this case FY 1998) is equal to or greater than 25.0 percent.



Note

A school is not subject to the loss of Federal Pell Grant Program eligibility if, prior to October 7, 1998, a school officially withdrew (in writing) from or lost its eligibility to participate in the FFEL Program and/or Direct Loan Program and has not subsequently participated in the programs. In addition, a school is not subject to the loss of Federal Pell Grant Program eligibility if it did not certify any FFEL Program and/or originate any Direct Loan Program loans on or after July 7, 1998.

AND/OR

◆ **possible action to limit, suspend, and/or terminate (LS&T)⁴** a school's eligibility to participate in any or all Title IV Student Financial Assistance Programs. This occurs when a school's official cohort default rate is 40.1 percent or greater.



Note

If a school is subject to an LS&T action based on its final cohort default rate, the school will be notified in writing of the intended action. If a school believes it has a basis to appeal its **official** cohort default rate, it must follow the procedures set forth in the Department's Regulations and the *Official Cohort Default Rate Guide*. A school cannot wait to appeal its cohort default rate until after it has been notified that the Department is pursuing an LS&T action.

Q . How does a school officially withdraw from participation in the FFEL Program and/or Direct Loan Program?

A . The process for withdrawing from the FFEL Program and/or Direct Loan Program is handled by the Case Management Team and Direct Loan Operations, respectively. For further information contact the:

- ◆ Case Management Team at (202) 205-0183 for withdrawing from the **FFEL Program**;

AND/OR

- ◆ Direct Loan Operations at (202) 708-9951 for withdrawing from the **Direct Loan Program**.

Q . Could a school that was not participating in the FFEL Program and/or Direct Loan Program on October 7, 1998, lose its eligibility to participate in the Federal Pell Grant Program if it subsequently participates in the FFEL Program and/or Direct Loan Program?

A . Yes. Only those schools that were not participating in the FFEL Program and/or Direct Loan Program on October 7, 1998, and remain out of the loan programs are exempt from the loss of Federal Pell Grant Program eligibility.

³ 34 CFR Section 668.17(a)(3), Section 668.17(b), HEA Section 435(a)(2), and HEA Section 401(j)

⁴ 34 CFR Section 668.17(a)(2)

Q . If a school loses FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program eligibility, can it continue to disburse funds?

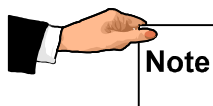
A . A school that loses FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program eligibility may continue to disburse funds after notification of the loss of the school's eligibility if the criteria at 34 CFR Section 668.26 (d) are met.

What are the consequences associated with sanctions based on official cohort default rates?

A school subject to:

- ◆ **initial or extended loss** of FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program eligibility loses its eligibility to participate in that program for the remainder of the fiscal year in which the school became subject to the loss and for the two subsequent fiscal years.⁵

Example: If a school is notified that it is subject to initial or extended loss of FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program eligibility in FY 2000, the school would lose its eligibility for the remainder of FY 2000 and for the next two fiscal years (i.e., FY 2001 and FY 2002). Therefore, the school would remain ineligible through September 30, 2002.



If the Department fails to release official cohort default rates by the end of the fiscal year (i.e., by September 30), the Department will calculate a school's period of loss as if the cohort default rates were released on September 30.

- ◆ **LS&T** may have its eligibility to participate in any or all Title IV Student Financial Assistance Programs limited, suspended, and/or terminated.

⁵ 34 CFR Section 668.17(b)(3)(i) and (ii)

Can a school appeal a notice of loss of eligibility resulting from official cohort default rates?

Yes, a school can appeal the Department's notice of loss of eligibility to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Programs. If eligible, a school may appeal based on:

- ◆ a request for adjustment;
- ◆ a new data adjustment;
- ◆ allegations of erroneous data;
- ◆ allegations of improper loan servicing and collection;
- AND/OR
- ◆ exceptional mitigating circumstances.

However, in order to submit an appeal on any of these bases, a school must meet the eligibility criteria as described in the "Information for Schools" section of the *Official Cohort Default Rate Guide*, which will be mailed to schools with the official cohort default rates.

As of July 1, 1999, an Historically Black College or University, Tribally Controlled Community College, and Navajo Community College, as defined in regulations, which is subject to the loss of eligibility to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program due to cohort default rates that are 25.0 percent or greater for the three most recent fiscal years may continue to participate in the programs if the school:⁶

- ◆ timely submits an acceptable default management plan;
- ◆ timely engages an independent third-party to assist in implementing the plan;
- AND

⁶ 34 CFR Section 668.17(k), HEA Section 435(a)(5)

Q . How does a school officially reapply for participation in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program?

A . To reapply for participation in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program, contact the:

- ◆ Case Management Team at (202) 205-0183 for participation in the **FFEL Program and Federal Pell Grant Program**;
- AND/OR
- ◆ Direct Loan Operations at (202) 708-9951 for participation in the **Direct Loan Program**.

- ◆ demonstrates that the plan has been successfully implemented and that the school's cohort default rate will be 24.9 percent or lower by July 1, 2002.

What are the consequences of an unsuccessful cohort default rate appeal?

In addition to losing eligibility to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program, Section 435(a)(2)(A)(iii) of the HEA requires a school that submits an unsuccessful cohort default rate appeal to pay the Secretary an amount equal to the amount of interest and special allowance, reinsurance, and any other related or similar payments which the Secretary is (or could be) obligated to pay as a result of any FFEL Program and Direct Loan Program loans certified/delivered and originated/dispensed during the pendency of the appeal. The period of liability during the pendency of the appeal is the period that begins 30 calendar days after the school receives notification of its cohort default rate and continues up to 45 calendar days after the date the Department receives the complete appeal from the school.⁷

When does the school's loss of eligibility to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program become effective?

The effective date of the school's loss depends on whether the school appeals.

- ◆ **If a school does not appeal**, a school's participation in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program ends 30 calendar days after the date the school first receives notice that it is subject to the loss of eligibility.⁸
- ◆ **If a school timely appeals** its loss of eligibility to participate in the FFEL Program and/or Direct Loan Program, the school remains eligible to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program until the school's receipt of the Department's final decision on the school's appeal(s) that indicates that the school's appeal(s) was unsuccessful.

⁷ HEA Section 435(a)(2)(A) and 34 CFR Section 668.17(b)(6)(ii)

⁸ 34 CFR Section 668.17(b)(1), (b)(2), and (b)(3)

AND/OR

- ◆ **If a school timely appeals** its loss of eligibility to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program **and is successful**, the Department will withdraw the school's loss of eligibility notification.

Are there any exceptions to the sanctions associated with official cohort default rates?

In addition to being exempt from sanctions due to a successful cohort default rate appeal, a school may avoid certain sanctions despite its cohort default rates if:

- ◆ the school has an **unofficial cohort default rate** as described in the "Cohort Default Rates" section on page 16. An unofficial cohort default rate is not used to end a school's eligibility to participate in any Title IV Student Financial Assistance Programs.
- ◆ the school has an **average cohort default rate with less than five borrowers entering repayment in any of the three most recent cohort periods**. A school that has an average cohort default rate with less than five borrowers entering repayment in any of the three most recent cohort periods will NOT be subject to an LS&T action based on the average cohort default rate.⁹



Note

This exception does not apply to those schools subject to initial or extended loss to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program.

AND/OR

- ◆ the school has submitted, prior to the release of the official cohort default rates, a successful **participation rate index challenge** based on its most recent draft cohort default rate or on either of its two previous official cohort default rates. A school that submits a successful participation rate index challenge based on either its draft cohort default rate or either of the two previous official cohort default rates will NOT be subject to initial or extended loss of its eligibility to participate in the FFEL Program, Direct Loan Program, and/or Federal Pell Grant Program.

⁹ 60 Fed. Reg. 61760, 61764 (December 1, 1995) (Preamble to Final Rule)

Q . What is a participation rate index?

A . A participation rate index is the percentage of a school's students that obtain FFEL Program and/or Direct Loan Program loans multiplied by the school's cohort default rate.

Please refer to page 101 of the "Participation Rate Index Challenge" section for additional information on calculating a participation rate index.

**Note**

A successful participation rate index challenge based on a school's FY 1998 **draft** cohort default rate will only alleviate a potential loss of eligibility based on the school's FY 1996, FY 1997, and FY 1998 official cohort default rates. Therefore, the school could subsequently be subject to the loss of eligibility to participate in the loan and grant programs due to FY 1997, FY 1998, and FY 1999 official cohort rates that are 25.0 percent or greater. However, if the Department determines that the school's participation rate index is successful based on its FY 1998 **official** cohort default rate, the earliest the school could be subject to the loss of eligibility to participate in the loan and grant programs due to its three most recent official cohort default rates is with the release of the FY 2001 official cohort default rates.

Q . Can a school that is an eligible home institution that certifies/originates loans to cover the cost of attendance in a study abroad program take advantage of the benefits associated with cohort default rates that are 9.9 percent or lower for three years?

A . Yes, eligible home institutions certifying/originating loans to cover the cost of attendance in study abroad programs can make single and/or non-delayed disbursements provided the students receiving the disbursements meet the criteria described in the HEA Section 428G(e).

Are there any benefits for schools with low cohort default rates?

Yes. There are two types of benefits that are available to certain schools with cohort default rates that are below certain thresholds.

◆ Any school whose **three most recent official cohort default rates are 9.9 percent or lower** may:¹⁰

❖ deliver/disburse **single installments** of loan proceeds to a student if that student's period of enrollment is equal to or less than:

- one semester
- one trimester;
- one quarter;

OR

- for non-term-based schools or schools with non-standard terms, four months,

AND

¹⁰ HEA Section 428G(a) and (b)(1)

- ❖ may choose **not to delay the delivery/disbursement** of the first installment of loan proceeds for first-year first-time borrowers.

◆ A school that is an eligible home institution that is certifying/originating a loan to cover the cost of attendance in a **study abroad program where the school's most recent official cohort default rate is 4.9 percent or less** may:¹¹

- ❖ deliver/disburse **single installments of loan proceeds** to the student studying abroad;

AND

- ❖ may choose **not to delay the delivery/disbursement** of the first installment of loan proceeds for first-year first-time borrowers studying abroad.



Schools may no longer certify/originate loans based on any of these exemptions beginning 30 calendar days after receiving notice from the Department of a cohort default rate that causes the school to no longer meet the established thresholds.

¹¹ HEA Section 428G(e)

